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SUBJECT: URUGUAY: GOVT LAUNCHES INDEPENDENT SAVINGS PROTECTION
AGENCY

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¶1. The GOU launched the Corporation of Bank Savings Protection (COPAB) on September 1. The COPAB succeeds the Superintendence of Bank Savings Protection, which was created as a Central Bank division soon after Uruguay's 2002 banking crisis. Like its predecessor, the COPAB will be in charge of protecting savings in financial institutions and administering Uruguay's deposit protection fund (currently holding approximately USD 121 million). Unlike its predecessor, it will be independent from the Central Bank. COPAB has been tasked with designing bank resolution procedures, making deposit payoffs whenever financial institutions fail, and taking over failing institutions. COPAB's Board is composed of three members that will serve terms of eight, five and two years in office in order to keep them independent from the political cycle.

¶2. Speaking at COPAB's inauguration, Minister of Economy Alvaro Garcia and Central Bank President Mario Bergara touted its creation as an important step towards consolidating the institutional framework of Uruguay's financial system. Both officials expected COPAB to protect less sophisticated deposit holders and help preserve the chain of payments, which should result in a safer and more stable banking system. Bergara explained that under the new framework, the Central Bank remains the lender of last resort, the Central Bank's Superintendence of Financial Services is in charge of regulating and supervising the financial system, and the COPAB is in charge of protecting savings.

¶3. Uruguay's deposit insurance covers up to USD 5,000 per account for dollar-denominated deposits, and up to 250,000 Readjustable Units per account (about USD 25,000) for peso-denominated deposits. Since its creation in December 2002, the insurance fund was used only once, in the case of a financial cooperative that was finally purchased by Venezuelan bank Bandes (Refs).

¶4. The USG is helping through Treasury's Office of Technical Assistance (OTA), by providing technical assistance to several divisions of the Central Bank. Part of OTA's program is specifically targeted at building COPAB's capacities in the areas of risk analysis and bank resolution procedures. The launching of COPAB was part of the new central bank charter passed in October 2008, and was not related to any adverse development in the local financial system. To the contrary, Garcia and Bergara highlighted the soundness of local banks, noting that they have not been hit by the global financial crisis.

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